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EXECUTIVE DEPARTMENT

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Remarks on Jobs Creation by Governor William F. Weld

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Jobs Creation

Mr. Speaker, Mr. President, Members of the Legislature, and fellow citizens of Massachusetts:

I've asked for this opportunity to meet with you today so that, together, we can address a matter of critical importance to every citizen in this Commonwealth -- the creation of long-term, well-paying jobs in our state.

All of us in state government have done important work in the past 20 months in seeing to it that our state finances have been stabilized. Nothing is greater evidence of this fact than the triple upgrade in our bond rating from Wall Street last week.

But while the state budget crisis has abated, the recovery has not yet made its way to our state's economy.

We therefore owe something more, now, to people who have lost their jobs... the Rexnord worker in Springfield, the shoemaker at the Haverhill Shoe Company, the machinist at the E.C.H. Will Corporation in Lee, the sewing-machine operator at Anderson-Little in Fall River, the workers at Heald Machine Corporation in Worcester, the computer technician at Wang in the Lowell area, and too many other friends and neighbors.

When the unemployment rate is 8.3 percent, that is unacceptable. When 260,000 of our fellow citizens are unemployed, <u>that</u> is unacceptable.

We in state government owe these people our undivided efforts to adopt programs that will encourage the creation of jobs.

In the past, when government decided to be pro-active about job creation, too often it would simply hire workers for leaf-raking projects, whose impact on the level of jobs would be only temporary. That kind of pump-priming does not create long-term jobs.

We need to identify the problems we face in the Massachusetts economy, and then adopt targeted policies to solve those problems. This will serve as a catalyst for the creation of jobs -- stable jobs, long-term jobs, well-paying jobs -- <u>by</u> the private sector and <u>in</u> the private sector.

On paper, we should be well-positioned for the international economy of the 1990's and beyond. Because of our universities,

hospitals and research institutions, we have a head start in knowledge-based industries like biopharmaceuticals, computer software, telecommunications, advanced materials, and environmental consulting and engineering. This is a major competitive advantage.

But there are at least three <u>obstacles</u> to our cashing in on that advantage.

Number one, there is a shortage of capital. Young biotech and infotech companies can't get bank loans to expand because they don't have a track record of earnings yet.

Number two, we face intense competition from other states for the manufacturing jobs we need here.

And number three, there are barriers to our access to markets where we need to sell our products and services.

Let's take these problems one at a time:

First, to address the credit crunch, I am filing legislation tomorrow to create two programs which will stimulate private-sector lending in support of business expansion.

I'm asking the Legislature to appropriate $30 million for an Emerging Technology Fund, to ensure that companies with high-growth potential have sufficient leverage to build manufacturing facilities in our state. By Christmas, five Massachusetts biotech companies will decide where to expand their operations or locate new manufacturing facilities. Even though these companies could provide our state with hundreds of high-wage jobs, they are having trouble finding financing to build these plants in Massachusetts. We <u>can't</u> build an economy on research alone; we have to capture the manufacturing, the marketing, and the sales staff, as well.

I'm asking for another $10 million for a Small Business Capital Access Program, which will enable small businesses, or start-ups, to obtain sufficient capital to expand.

As a similar program in Michigan has illustrated, by devoting just $10 million in state funds to back loans made by banks to these employers, we will leverage up to 20 times as much private financing that will enable small businesses to blossom.

Some people will ask: "Why are you being so pro-active? We thought government was just supposed to get out of the way?"

I say, these are market failures we are responding to. Bankers spooked by the recession should come out of their foxholes -- the shelling has stopped and rebuilding has begun. But if banks won't lend in this new landscape, emerging high-tech companies can't expand. Under such circumstances, it is entirely appropriate for government to take positive steps to break the logjam.

Problem number two is intense competition from our sister states for the very jobs we are so interested in attracting and retaining. They can see the future just as easily as we can.

Dozens of states, from Nevada to North Carolina to Colorado, are out there hustling and rustling our companies, offering tax and financing assistance and other incentives.

One of these states beat us to the punch last month. Alpha-Beta Technology, a Worcester-based biotech firm, plans to build a $31 million manufacturing plant, a factory which will give 200 workers steady, well-paying jobs. But they are building the plant in Rhode Island.

Why did we lose Alpha-Beta? Very simple. Rhode Island was able to provide $25 million in taxable bond financing for the new plant. They had the flexibility and coordination to get the deal done.

Unfortunately, our quasi-public agencies that assist with economic development through loan guarantees or bonding are fragmented. Their missions often overlap, and there is no coordination. These agencies do what they do well, but their scope is small and they operate within a flawed system.

We've got an alphabet-soup of agencies -- MIFA, MEFA, HEFA, CEDAC, MTDC, ISP, CDFC, BSSC, MGLB, MMC -- but very few people even know what all these letters stand for, and businesses can waste months just figuring out which agency can best assist them.

In this economic climate, we must have a strategic, focused plan that pools these resources. Ten-stop shopping is no substitute for one-stop shopping.

That is why I am also filing legislation tomorrow to create a Massachusetts Development Agency, an umbrella organization to coordinate the activities of the 10 quasi-public economic development agencies. We will create a regional system of "one-stop shopping" offices that is both user-friendly and unified. Our goal must be: <u>No more Alpha-Betas!</u>

To meet our competition, we need action on the tax front, as well. Earlier this year, I asked forty top business leaders and economists from across the state to recommend what we should do to make our state a more attractive site for businesses to locate and expand.

And they told me, with one voice: "Cut the tax on long-term capital gains. Reward investment capital, and it will flow to Massachusetts."

So today I again call upon the Legislature to pass a capital gains tax phase-out. The best way to create more employees is to create more employers. We should not be marching off 15-yard penalties against people who are investing in job-creating ventures.

I know that some people will instantly criticize this proposal. They'll try to portray it as a giveaway to the rich. They'll say that this is just going to benefit Bill Weld and the people he plays squash with. That criticism is part of what the cynics on Beacon Hill call "good politics."

But as Paul Tsongas has said, that sort of criticism "is good politics at the expense of the nation's industrial base."

Paul Tsongas has said that his party -- and I quote -- "should be concerned with what a targeted capital gains tax would do for America and not be focused on a myopic discourse about who benefits the most under such a system. It is the common good that counts."

Senator John Kerry, another leading Democrat, has also filed a bill to cut the federal capital gains tax on emerging companies with high-growth potential. Senator Kerry said -- and I again quote -- "I only wish that we could have passed this legislation last year so that we would now be well on our way to creating and saving jobs in Massachusetts."

Can we afford our phase-out plan? Absolutely. Our number-crunchers tell us it will cost only $10 million in revenues, total, over the next four years.

In order to be competitive, we must also encourage manufacturers already up-and-running to invest further in Massachusetts. That is why I also propose today a permanent 3 percent investment tax credit, three times our current credit.

Our analysis shows that the cost of this measure is $29 million, total, over the next four years, a small sum to help

underwrite crucial manufacturing investments which will keep jobs in our state. This type of incentive is critical to our manufacturing sector, which has lost 200,000 jobs since 1984, including 32 percent of all high-tech manufacturing positions.

New industrial equipment will keep our companies competitive and enable them to earn profits. It will create jobs not only while it is being purchased and installed; it will support good solid manufacturing jobs, in profitable companies, for years into the future.

One other step would further improve our competitive position. Unlike 36 other states, including Texas, New York, Florida, Michigan, New Jersey, and Pennsylvania, Massachusetts does not allow the creation of special enterprise zones which can restore manufacturing jobs, particularly in some of our distressed urban areas where industry once thrived. Again I respectfully ask the Legislature to pass Economic Opportunity Areas legislation, so that hard-hit neighborhoods can employ tax credits and other special incentives to bring jobs to their communities.

Our third problem is lack of access to markets. Ignorance of opportunities abroad is one such barrier, and through trade missions we have been jointly endeavoring to publicize those opportunities for the 70 percent of Massachusetts companies which have never exported anything.

I am also asking the Legislature today to devote $10 million to guarantee loans made to small businesses that export. This type of program has worked well in California. It will allow our Commonwealth's emerging companies to capitalize upon the type of emerging markets we've seen on trade missions to Southeast Asia, Israel, and Europe. The window we have opened for international trade won't be open forever; our companies must sink roots into global markets while the territory is most fertile.

Incredibly, there are also <u>physical</u> obstacles to getting our goods and services to market: for example, we cannot double-stack containers on flatbed railroad cars in Massachusetts, because our bridges are too low! And we risk the loss of major national and international events in our state, because of a lack of host facilities.

We must sweep these obstacles away if we are to make Massachusetts the thriving capital of the Atlantic Rim by the year 2000. And we can do so.

We already are spending more than $1.4 billion in state and federal capital funds on construction-related projects which create short-term jobs and improve our infrastructure. But that is still not enough.

I propose to devote $100 million annually, for the next five years, to capital projects that will stimulate job growth. This money -- which we have already carved out of our 5-year capital plan -- will go toward "bricks-and-mortar" economic development projects which require some government investment for lift-off.

Before any special-interest groups start salivating, let me make clear our intentions for this money. We are not going to spend this money on typical public works projects, which tend not to be self-sustaining and which don't expand markets and attract private investment. This money will be judiciously targeted toward projects that can keep Massachusetts ahead of the global competition, the type of ideas our Economic Affairs Secretariat is discovering during its regional hearings on a Statewide Economic Strategy.

Lowering railbeds to provide transportation links which unlock critical development sites is one target. Installing state-of-the-art information networks between our high schools, research universities and leading industries could be another. Renovating and selling off unused state land and buildings to attract long-term private-sector investment could be another.

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Paul Cellucci and I believe strongly in the proposals I have outlined today: 1) creation of an Emerging Technologies Fund; 2) creation of a Small Business Capital Access Program; 3) coordinating our quasi-public economic development agencies; 4) phasing out the tax on capital gains; 5) raising the investment tax credit; 6) bringing enterprise zones to Massachusetts; 7) offering export loan guarantees to small businesses; and 8) devoting $100 million per year in capital spending to economic development.

In fact, we believe in them so strongly that Paul and I will personally contact every member of the Legislature, urging you to support these economic recovery measures.

We can't just wait for the recovery to occur. We must help make it happen.

The Legislature took a well-deserved break this summer after balancing the budget. But now summer is over. Just as we

together tackled the fiscal crisis, we must now respond together to the needs of our fellow citizens whose hopes for employment and renewed prosperity depend on action by the people in this room -- all the people in this room.

Thank you.